FPL

July 15, 2013

Ms. Ann Cole
Director, Division of Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Docket No. 130007-EI
Environmental Cost Recovery Clause
Auditor's Report

Dear Ms. Cole:

This letter is Florida Power & Light Company's ("FPL's") written response to the final audit report dated May 31, 2013 (Audit Control No. 13-015-4-1) (the "Audit Report"), which is the product of an extensive audit of FPL's Environmental Cost Recovery Clause ("ECRC") actual transactions for the year ended December 31, 2012. FPL accepts the invitation to file a response in order to clarify and address certain aspects of the Audit Report.

Audit Finding No. 1:

Audit Finding No. 1 relates to $8.7 million of new gas desulfurization equipment at Scherer Unit 4 that was incorrectly coded as base rate recoverable when it went into service over the period October through December 2012. The initial in-service amount of $201 million for the gas desulfurization project was properly recorded as ECRC in Project 31-CAIR Compliance during the month of September 2012. The additional in-service amounts associated with this project recorded in October through December 2012 should have also closed to Project 31-CAIR Compliance. FPL recorded an entry to reclassify the $8.7 million equipment, and associated accumulated provision for depreciation, from base rate recoverable to ECRC in March 2013 when the error was detected by FPL as a result of the Commission's audit inquiry.

After this error was detected, FPL conducted a post audit review. As a result, FPL has identified the root cause and implemented countermeasures to prevent reoccurrence. Specifically, the proper depreciation group assignment was not picked up correctly through FPL's Power Plant conversion process. As a result, FPL has increased the level of review of ECRC internal orders through the use of weekly exception reporting to validate the correlation of data between ECRC Class Codes and depreciation group assignments.

Audit Finding No. 2:

Audit Finding No. 2 relates to a $107k retirement and $133k of cost of removal which were incorrectly recorded against Project 31-CAIR Compliance for the replacement of reheat dampers at FPL's Manatee Unit 2, when in fact it should have been recorded as base rate recoverable. FPL recorded an entry in May 2013 to reclassify the $107k retirement and $133k cost of removal from Project 31-CAIR Compliance to base rate recoverable.

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After this error was detected, FPL conducted a post audit review. As a result, FPL has identified the root cause and implemented countermeasures to prevent reoccurrence. Specifically, the retirement and cost of removal were incorrectly assigned to an ECRC depreciation group. As a result, FPL has increased the level of review of ECRC internal orders through the use of weekly exception reporting to validate the correlation of data between ECRC Class Codes and depreciation group assignments.

Audit Finding No. 3:

Audit Finding No. 3 relates to the misstatement of the CWIP balances reflected on Form 42-8A in 2012. During the ECRC audit, the FPSC auditors requested a reconciliation of ECRC CWIP to total CWIP on the general ledger as of December 31, 2012. In preparing our response, it was determined that FPL had incorrectly reflected the total project cost of CWIP projects, which included amounts recorded to both FERC Account 107 and cost of removal, on Form 42-8A instead of reflecting the amount associated with FERC Account 107 only. Cost of removal is recorded as a decrease to FPL's accumulated provision for depreciation when the dollars are incurred each month, which results in an increase in net investment. Therefore, FPL incorrectly reflected cost of removal twice in its calculation of net investment on Form 42-8A; once as a decrease to accumulated provision for depreciation and once as a cost included in CWIP. This misstatement did not affect FPL's general ledger; however, it did affect the net investment reflected on Form 42-8A used to calculate a return on net investment for Projects 31-CAIR Compliance, 39 – Martin Next Generation Solar Energy Center, and 45-800 MW Unit ESP.

After this misstatement was identified, FPL conducted a post audit review and implemented countermeasures to prevent reoccurrence. Specifically, FPL has revised its monthly return on net investment calculations, beginning in May 2013, to identify and utilize only the CWIP amounts charged to FERC Account 107, not total project costs, when calculating a return on net investment on Form 42-8A.

Audit Finding No. 4:

Audit Finding No. 4 relates to $129k of non-incremental payroll that was incorrectly recorded to Project 45-800 MW Unit ESP plant-in-service in November 2012. In preparing our response to an audit inquiry, FPL determined that the $129k was for a specific work order to collect non-incremental payroll in support of the Manatee Unit 2 Electrostatic Precipitators project and should not be recoverable through ECRC. As such, FPL recorded an entry to reclassify the $129k plant-in-service, and associated accumulated provision for depreciation, from ECRC to base rate recoverable in May 2013 when the error was detected.

After this error was detected, FPL conducted a post audit review and implemented countermeasures to prevent reoccurrence. FPL has increased the level of review of ECRC internal orders through the use of weekly exception reporting to validate the correlation of data between ECRC Class Codes and depreciation group assignments.

Audit Finding No. 5:

Audit Finding No. 5 relates to $648k of O&M expenses at Scherer Unit 4 recorded to Project 33-MATS in June 2012, when it should have been recorded as a base rate recoverable expense. FPL receives monthly reports from Georgia Power Company ("GPC") reflecting FPL's ownership portion of O&M expenses and utilizes these reports to book the appropriate entries each month. 2012 was the first year in which there were O&M overhaul expenses for a portion of GPC's environmental controls. As such, in mid-2012, FPL collaborated with GPC in order to capture ECRC overhaul O&M costs in a new monthly overhaul cost report ("ECRC report") separately from all other O&M expenses ("O&M report"). After the new reporting was implemented, it appeared that the ECRC overhaul costs were understated by $648k because the new ECRC report separately displayed monthly overhaul charges from January – May 2012. However, the reported ECRC overhaul costs were embedded in the reports used to record total ECRC costs for the same period. In reading the new ECRC report, FPL thought the ECRC overhaul costs were reflected in the overhaul amounts recorded as base rate recoverable and not ECRC. Therefore, FPL recorded an entry to reclassify $648k of overhaul costs from base rate recoverable to Project 33-MATS in ECRC in June 2012. In response to an audit request for detailed transactions, FPL determined that the $648k charge should not have been reclassified from base rate recoverable to Project 33-MATS in ECRC in June 2012 and recorded an entry to remove $648k from Project 33-MATS in March 2013.

After this error was detected, FPL conducted a post audit review. As a result, FPL has identified the root cause and implemented countermeasures to prevent reoccurrence. Identified countermeasure include: reviewing and incorporating error proofing functionality of the supporting files utilized to develop monthly journal entries, collaboration with GPC to redesign GPC reports to accurately classify monthly ECRC versus base rate recoverable overhaul O&M expenses, and migrating GPC financial files supplied to FPL from Adobe Acrobat file format to Excel to improve FPL analysis and verification capabilities.

Conclusion

FPL appreciates Staff's efforts in thoroughly reviewing FPL's accounting processes for recording ECRC-recoverable amounts. While the findings identified by Staff represent only a tiny fraction of FPL's total ECRC charges in 2012 (approximately 0.3%), FPL nonetheless takes those findings very seriously and is working to ensure that they are fully addressed to prevent recurrence. FPL has an excellent track record of accurately recording costs and fully intends to mitigate the risk of future errors.

Thank you for the opportunity to provide this response.

Sincerely,

Kim Ousdahl

Kim Ousdahl
Vice President, Controller and Chief Accounting Officer
Florida Power & Light Company

cc: Kathy Welch, Office of Auditing and Performance Analysis
Lynn Deamer, Office of Auditing and Performance Analysis
J.R. Kelly, Office of Public Counsel